

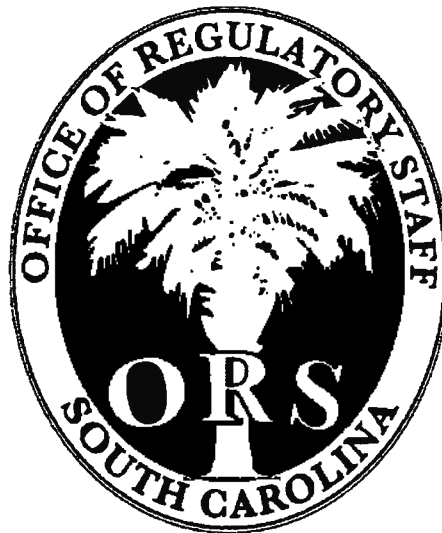
THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

CHRISTINA A. STUTZ

APRIL 9, 2009



DOCKET NO. 2008-460-WS

**Application of Avondale Mills, Incorporated
for Approval of a New Schedule of Rates and
Charges for Water and Sewerage Services
Provided to Customers in Aiken County,
South Carolina**

1 **DIRECT TESTIMONY OF CHRISTINA A. STUTZ**
2 **FOR**
3 **THE OFFICE OF REGULATORY STAFF**
4 **DOCKET NO: 2008-460-WS**
5 **IN RE: AVONDALE MILLS, INCORPORATED FOR**
6 **APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES FOR**
7 **WATER AND SEWERAGE SERVICES PROVIDED TO CUSTOMERS IN**
8 **AIKEN COUNTY, SOUTH CAROLINA**

9
10 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
11 **OCCUPATION.**

12 **A.**My name is Christina A. Stutz. My business address is 1401 Main Street,
13 Suite 900, Columbia, South Carolina, 29201. I am employed by the South
14 Carolina Office of Regulatory Staff ("ORS") as an Auditor.

15 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
16 **EXPERIENCE.**

17 **A.**I received a Bachelor of Science degree with a major in Accounting and
18 minor in Criminal Justice from the University of South Carolina in 2004. In April
19 2005, I began my employment with ORS, where I have been performing
20 regulatory reviews of utility companies.

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
22 **PROCEEDING?**

THE OFFICE OF REGULATORY STAFF
1401 Main Street, Suite 900
Columbia, SC 29201

1 **A.** The purpose of my testimony is to set forth my findings and
2 recommendations resulting from ORS's examination of the Application, filed on
3 December 23, 2008, of Avondale Mills, Inc. for approval of a new schedule of rates
4 and charges for water and sewerage services provided to customers. My testimony
5 will refer to Avondale Mills, Inc. ("Avondale" or "Applicant"), the only system of
6 Avondale Incorporated ("parent company") operating in South Carolina.

7 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR**
8 **TESTIMONY.**

9 **A.** I have attached the following exhibits to my testimony relating to the
10 Application of Avondale Mills, Inc.:

- 11 • Audit Exhibit CAS-1: Operating Experience and Operating Margin
- 12 • Audit Exhibit CAS-2: Explanation of Adjustments
- 13 • Audit Exhibit CAS-3: Computation of Depreciation Expense
- 14 • Audit Exhibit CAS-4: Computation of Income Taxes

15 These exhibits were either prepared by me or were prepared under my direction
16 and supervision in compliance with recognized accounting and regulatory
17 procedures for water and wastewater utility rate cases. These exhibits show
18 various aspects of Avondale's operations and financial position.

19 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT CAS-1 AND**
20 **ELABORATE ON THE CALCULATIONS.**

21 **A.** Audit Exhibit CAS-1 shows Avondale's operating experience and operating
22 margin for water and wastewater operations for the test year ended August 29,
23 2008. The exhibit's format is designed to reflect the Application per books and

1 ORS's proposed accounting and pro forma adjustments necessary to normalize the
2 results of Avondale's test year operations.

3 Column (1) shows the Application per books calculated by Avondale for the test
4 year ended August 29, 2008. The net operating loss for return of (\$864,725) was
5 based on total operating revenues of \$110,816 less total operating expenses of
6 \$975,541. The operating margin of (780.33%) was calculated by dividing the net
7 operating loss for return by the total operating revenues.

8 Column (2) shows ORS's proposed accounting and pro forma adjustments designed
9 to normalize the Application per books. An explanation of each adjustment is
10 contained in Audit Exhibit CAS-2.

11 Column (3) shows ORS's result of a normalized test year for Avondale by adding
12 columns (1) and (2). The net effect of ORS's proposed accounting and pro forma
13 adjustments resulted in a net operating loss of (\$475,952) and an operating margin
14 of (429.69%).

15 Column (4) shows Applicant's proposed increase recalculated by ORS and the
16 calculation of taxes associated with the proposed increase. An explanation of each
17 adjustment is contained in Audit Exhibit CAS-2.

18 Column (5) shows the effect of the Applicant's proposed rate increase by adding
19 columns (3) and (4). The net effect after the Applicant's proposed rate increase
20 resulted in net operating income for return of \$91,965 and an operating margin of
21 12.71%.

22 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT CAS-2.**

1 **A.** For comparative purposes, ORS and Applicant's adjustments are both
2 presented in Audit Exhibit CAS-2. The following adjustments are listed at Audit
3 Exhibit CAS-2 under "Adj. #":

4 Adjustment 1 - The ORS Water/Wastewater Department proposes to normalize
5 sewer revenues for the test year. Details of the adjustment for (\$50) are in the
6 direct testimony of ORS Water/Wastewater Manager, Willie Morgan.

7 Adjustment 2 - ORS proposes to annualize wages and taxes for the test year. The
8 Company employs one (1) full time employee and three (3) part-time employees
9 with wages allocated from the parent company. Wages were annualized using the
10 payroll records as of August 30, 2008. ORS calculated total annualized wages of
11 \$118,019, less the Application per book amount of \$130,922, for an adjustment of
12 (\$12,903). In addition, ORS calculated annualized payroll taxes associated with
13 these wages of \$8,079, less the Application per book amount of \$7,059, for an
14 adjustment of \$1,020. The total combined adjustments were (\$11,883).

15 Adjustment 3 - ORS proposes to annualize contracted labor expenses using the last
16 quarter of the test year. The Company experienced an increase in contracted labor
17 costs due to the loss of one employee in December 2007. ORS calculated total
18 annualized contracted labor expenses of \$63,874, less the Application per book
19 amount of \$57,279, for a total adjustment of \$6,595.

20 Adjustment 4 - The ORS Water/Wastewater Department proposes to adjust for
21 "unaccounted for water" in the test year. The adjustment is explained in the direct
22 testimony of ORS Water/Wastewater Manager, Willie Morgan.

1 Adjustment 5 - ORS proposes to annualize sewer treatment expenses based on
2 billings from the Aiken County Public Service Authority for the quarter ending
3 December 2008. ORS calculated annualized treatment expenses of \$59,561, less
4 the Application per book amount of \$13,608, for a total adjustment of \$45,953.

5 Adjustment 6 - ORS proposes to remove from maintenance expenses capitalized
6 items of \$104,612, double booked expenses of \$4,461, expenses incurred outside of
7 the test year of \$1,947, and unregulated utility expenses for the Horse Creek Pump
8 of \$8,297. The total adjustment was (\$119,317).

9 Adjustment 7 - ORS proposes to adjust depreciation on fixed assets as of August
10 29, 2008 to reflect useful lives recommended by the ORS Water/Wastewater
11 Department. ORS also proposes to include additional capitalized items and remove
12 unregulated utility items. ORS calculated total depreciation expense of \$53,068,
13 less the Application per book depreciation expense of \$144,456, for a total
14 adjustment of (\$91,388) as shown on Audit Exhibit CAS-3.

15 Adjustment 8 - ORS proposes to adjust for actual postage expense to mail customer
16 billings. The adjustment was based on 616 monthly customer bills times \$.42 for
17 twelve months. ORS calculated total postage of \$3,105, less the Application per
18 book amount of \$2,631, for a total adjustment of \$474.

19 Adjustment 9 - ORS proposes to normalize test year allocated telephone expenses.
20 The parent company booked \$13,787 as total telephone expenses. From this
21 amount, ORS removed past due payments of \$3,342 and annualized expenses by
22 adding \$931 for August 2008 for a total of \$11,376. The parent company allocated
23 20% of these expenses totaling \$2,275 to Avondale. Also included were cell phone

1 expenses for Avondale's full-time employee of \$1,355. ORS calculated total
2 telephone expenses for Avondale of \$3,630, less the Application per book amount
3 of \$4,500, for a total adjustment of (\$870).

4 Adjustment 10 – ORS proposes to adjust total parent company miscellaneous
5 expenses of \$507,079, which were allocated to Avondale. ORS removed from this
6 amount the liquidation expenses of \$148, entertainment expenses of \$715, and rate
7 case expenses of \$5,800 used in the calculation of Total Rate Case Expense. After
8 removing these expenses, 1.18% of total miscellaneous expenses of \$500,415 were
9 allocated to Avondale. ORS calculated the amount allocated to Avondale of
10 \$5,921, less the Application per book amount of \$6,000, for an adjustment of (\$79).

11 Adjustment 11 - ORS proposes to adjust gross receipts taxes associated with the
12 revenues after ORS's proposed accounting and pro forma adjustments. ORS
13 multiplied the total operating revenues for the test year of \$110,766 by the gross
14 receipts factor of .0074178 for an adjustment of \$822.

15 Adjustment 12 - ORS proposes to amortize the rate case expenses incurred in this
16 rate case proceeding. ORS verified the actual rate case expenses documented as of
17 March 31, 2009 for the amount of \$10,017. This amount was amortized over a
18 three-year period for an adjustment of \$3,339.

19 Adjustment 13 -- ORS proposes to adjust for bad debt expense associated with the
20 Company's revenue after ORS's proposed accounting and pro forma adjustments.
21 The bad debt expense factor of 0.4514% was provided by ORS Water/Wastewater
22 Manager, Willie Morgan. This percentage was applied to the total operating
23 revenues of \$110,766 for an adjustment of \$500.

1 Adjustment 14 - Based upon ORS Water/Wastewater Department calculations,
2 Avondale's proposed rates would produce additional revenues of \$299,617 for
3 Metered Water Revenues. Details of this adjustment are shown in Mr. Morgan's
4 direct testimony.

5 Adjustment 15 - Based upon ORS Water/Wastewater Department calculations,
6 Avondale's proposed rates would produce additional revenues of \$313,443 for
7 Sewer Revenues. Details of this adjustment are shown in Mr. Morgan's direct
8 testimony.

9 Adjustment 16 - ORS proposes to adjust gross receipts taxes associated with the
10 revenues after the proposed increase. ORS multiplied the total gross revenues after
11 the proposed increase of \$613,060 by the gross receipts factor of .0074178 for an
12 adjustment of \$4,548.

13 Adjustment 17 - ORS proposes to adjust for bad debt expense associated with the
14 Company's recalculated proposed rate increase. The bad debt expense factor of
15 0.4514% was provided by ORS Water/Wastewater Manager, Willie Morgan. This
16 percentage was applied to the total proposed increase amount of \$613,060 for an
17 adjustment of \$2,767.

18 Adjustment 18 - ORS proposes to adjust for income taxes associated with the
19 applicant's proposed rate increase. See Audit Exhibit CAS-4 for the computation
20 of income taxes.

21 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

22 **A.** Audit Exhibit CAS-3 shows the computation of depreciation expense.
23 Depreciation expense was annualized using useful lives determined by the ORS

1 Water/Wastewater Department. Audit Exhibit CAS-4 shows the computation of
2 the state and federal income taxes based on taxable income after the Applicant's
3 proposed increase recalculated by ORS.

4 **Q. DOES THE APPLICANT MAINTAIN ITS BOOKS AND RECORDS IN**
5 **ACCORDANCE WITH PSC RULES AND REGULATIONS?**

6 A. The Applicant did not utilize the National Association of Regulatory Utility
7 Commissioners ("NARUC") Uniform System of Accounts for Water and
8 Wastewater Utilities. In addition, the water and sewer operations of Avondale
9 Mills, Inc. were not maintained as separate books and records, but as a separate
10 category on the books and records of its parent company.

11 **Q. BASED ON THE ABOVE CONCERNS, DOES ORS HAVE ANY**
12 **RECOMMENDATIONS FOR THE APPLICANT?**

13 A. Yes. ORS recommends that the Applicant be required to maintain the
14 water and wastewater operations of Avondale Mills, Inc. in accordance with the
15 NARUC Uniform System of Accounts for Class C Utilities. This entails using the
16 NARUC account numbering system as well as producing a general ledger and
17 separate financial statements for the water and wastewater operations.

18 **Q. WHAT IS THE RESULTING OPERATING MARGIN AFTER APPLYING**
19 **ORS'S CALCULATION OF THE APPLICANT'S PROPOSED RATE**
20 **INCREASE?**

21 A. Based on ORS's proposed accounting and pro forma adjustments and after
22 the Applicant's proposed increase recalculated by ORS, the resulting operating
23 margin was 12.71%, as shown on Audit Exhibit CAS-1.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes.**

Avondale Mills, Inc.
Docket No. 2008-460-WS
Operating Experience and Operating Margin
For the Test Year Ended August 29, 2008

	(1)	(2)	(3)	(4)	(5)
	Application	ORS's	After	Applicant's	After
	Per Books	Proposed	ORS's	Proposed	Applicant's
		Accounting	Proposed	Increase	Proposed
		& Pro forma	Accounting	Recalculated	Increase
		Adjustments	& Pro forma	by ORS	Recalculated
			Adjustments		by ORS
<u>Operating Revenues</u>					
Metered Water Revenues*	\$ 54,052	\$ 0	\$ 54,052	\$ 299,617 (N)	\$ 353,669
Sewer Revenues*	56,764	(50) (A)	56,714	313,443 (O)	370,157
<u>Total Operating Revenues</u>	\$ 110,816	\$ (50)	\$ 110,766	\$ 613,060	\$ 723,826
<u>Operating Expenses</u>					
Wages & Taxes	\$ 137,981	\$ (11,883) (B)	\$ 126,098	\$ 0	\$ 126,098
Contracted Labor	57,279	6,595 (C)	63,874	0	63,874
Power	6,820	0	6,820	0	6,820
Purchased Water	358,509	(222,969) (D)	135,540	0	135,540
Purchased Sewer Treatment	13,608	45,953 (E)	59,561	0	59,561
Lab Testing	9,253	0	9,253	0	9,253
Treatment Chemicals	3,110	0	3,110	0	3,110
Maintenance & Repairs	221,985	(119,317) (F)	102,668	0	102,668
Vehicle Expense	4,753	0	4,753	0	4,753
Depreciation	144,456	(91,388) (G)	53,068	0	53,068
Office Supplies and Printing	4,500	474 (H)	4,974	0	4,974
Telephone Expense	4,500	(870) (I)	3,630	0	3,630
Other Miscellaneous Expense	6,000	(79) (J)	5,921	0	5,921
Licenses, Permits & Taxes	2,787	822 (K)	3,609	4,548 (P)	8,157
Rate Case Expenses	0	3,339 (L)	3,339	0	3,339
Bad Debt Expense	0	500 (M)	500	2,767 (Q)	3,267
Income Taxes (State and Federal)	0	0	0	37,828 (R)	37,828
<u>Total Operating Expenses</u>	\$ 975,541	\$ (388,823)	\$ 586,718	\$ 45,143	\$ 631,861
<u>Net Operating Income (Loss) for Return</u>	\$ (864,725)	\$ 388,773	\$ (475,952)	\$ 567,917	\$ 91,965
<u>Operating Margin</u>	-780.33%		-429.69%		12.71%

*Separation of water and sewer revenues provided by the ORS Water/Wastewater Department

AUDIT EXHIBIT CAS-2

**Avondale Mills, Inc.
Docket No. 2008-460-WS
Explanation of Adjustments
For the Test Year Ended August 29, 2008**

Revenues and Expenses	Adj.#	Description	\$ ORS	\$ Applicant
<u>ORS's Proposed Accounting and Pro forma Adjustments</u>				
(A) Sewer Revenues	1	To normalize revenues for the test year.	(50)	0
(B) Wages & Taxes	2	To annualize wages and taxes.	(11,883)	4,139
(C) Contracted Labor	3	To annualize contracted labor.	6,595	1,718
(D) Purchased Water	4	To adjust for "unaccounted for water."	(222,969)	(222,969)
(E) Purchased Sewer Treatment	5	To annualize expenses for sewer treatment services.	45,953	46,152
(F) Maintenance & Repairs	6	To remove items to be capitalized, incorrectly booked amounts, outside of test year expenses, and nonrelated Company expenses.	(119,317)	(109,073)
(G) Depreciation	7	To adjust depreciation expense based on service lives recommended by ORS Water/Wastewater Department, include capitalized items, and remove unregulated items.	(91,388)	12,119
(H) Office Supplies & Printing	8	To adjust postage expense for actual customer billings.	474	0
(I) Telephone Expense	9	To normalize telephone expenses for the test year.	(870)	0
(J) Other Miscellaneous Expense	10	To adjust miscellaneous expenses for removal of nonallowable amounts.	(79)	0
(K) Licenses, Permits, & Taxes	11	To adjust gross receipts taxes associated with revenues after ORS Proposed Accounting and Pro forma Adjustments.	822	0
(L) Rate Case Expenses	12	To amortize total rate case expenses over a three-year period.	3,339	17,500
(M) Bad Debt Expense	13	To adjust for uncollectible revenues associated with revenues after ORS Proposed Accounting and Pro forma Adjustments.	500	0
<u>Applicant's Proposed Increase Recalculated by ORS</u>				
(N) Metered Water Revenues	14	To adjust water revenues for ORS's recalculation of the Company's proposed rate increase.	299,617	299,617
(O) Sewer Revenues	15	To adjust sewer revenues for ORS's recalculation of the Company's proposed rate increase.	313,443	313,393
(P) Licenses, Permits, & Taxes	16	To adjust for gross receipts taxes associated with the Company's proposed rate increase.	4,548	4,547
(Q) Bad Debt Expense	17	To adjust for uncollectible revenues associated with the Company's proposed rate increase.	2,767	0
(R) Income Taxes (State and Federal)	18	To adjust for income taxes associated with the Company's proposed rate increase.	37,828	0

Avondale Mills, Inc.
Docket No. 2008-460-WS
Computation of Depreciation Expense
For the Test Year Ended August 29, 2008

	Date Acquired	Asset Number	Description	Amount \$	Service Life Years	Rate %	Expense \$
Fixed Assets Per Application:							
			<u>Buildings:</u>				
1	6/1/2001	137250	Water System Design	18,765	30	3.33%	625
2	8/1/2001	137591	Water System Design	38,754	30	3.33%	1,291
				57,519			1,916
			<u>Machinery & Equipment:</u>				
3	8/1/2001	137493	Engineering Services	4,000	30	3.33%	133
4	3/1/2002	138088	Water System Upgrade	132,587	30	3.33%	4,415
5	3/1/2002	138089	Water System Upgrade	86,223	30	3.33%	2,871
6	5/1/2002	138222	Water System Upgrade	96,105	30	3.33%	3,200
7	5/1/2002	138223	Water System Upgrade	110,321	30	3.33%	3,674
8	5/1/2002	138224	Water System Upgrade	4,300	30	3.33%	143
9	6/1/2002	138312	Water System Upgrade	1,300	30	3.33%	43
10	6/1/2002	138313	Water System Upgrade	42,473	30	3.33%	1,414
11	6/1/2002	138314	Water System Upgrade	92,385	30	3.33%	3,076
12	6/1/2002	138329	Maintenance Labor	93	30	3.33%	3
13	7/1/2002	138385	Water System Upgrade	4,685	30	3.33%	156
14	7/1/2002	138386	Water System Upgrade	59,931	30	3.33%	1,996
15	7/1/2002	138387	Water System Upgrade	21,031	30	3.33%	700
16	8/1/2002	138463	Goulds Pump	22,235	15	6.67%	1,483
17	8/1/2002	138464	Water System Upgrade	55,559	30	3.33%	1,850
18	8/1/2002	138465	6" & 8" Valves	6,571	20	5.00%	329
19	9/1/2002	138563	Water System Upgrade	34,124	30	3.33%	1,136
20	9/1/2002	138564	Water System Upgrade	8,026	30	3.33%	267
21	9/1/2002	138567	M-900 PLC Pipe	10,208	20	5.00%	510
22	9/1/2002	138568	Water System Upgrade	38,763	30	3.33%	1,291
23	11/1/2002	138736	Upgrade Water System	2,864	30	3.33%	95
24	11/1/2002	138755	Water System Upgrade	1,726	30	3.33%	57
25	1/1/2003	138896	Water System Upgrade	3,705	30	3.33%	123
26	1/1/2003	138897	Flowserve Tank	4,950	9	11.11%	550
27	1/1/2003	138898	AC Model 3408 Pump	7,971	15	6.67%	532
28	2/1/2003	139005	Water System Upgrade	17,050	30	3.33%	568
29	3/1/2003	139104	Survey and Test Water Flow	746	9	11.11%	83
30	10/1/2003	139717	6" & 8" Valves	8,278	20	5.00%	414
31	11/1/2003	139763	Freight	361	9	11.11%	40
32	11/1/2003	139764	Electric Labor	790	UR	UR	UR
33	12/1/2003	139815	900 MHZ Repeater System	10,242	UR	UR	UR
34	12/1/2003	139816	Electric Labor	1,402	UR	UR	UR
35	12/1/2003	139817	SS Valve Box	392	UR	UR	UR
36	12/1/2003	139818	Water Line & French Drains	59,275	UR	UR	UR
37	12/1/2003	139819	Water System Upgrade	2,002	UR	UR	UR
38	1/1/2004	139857	Electric Labor	1,022	UR	UR	UR
39	10/1/2004	140396	Pipe Fittings	485	UR	UR	UR
40	11/1/2004	140445	Honeywell Truline Recorder	1,854	UR	UR	UR
41	12/1/2004	140495	Electric Materials	251	UR	UR	UR
42	12/1/2004	140496	PH controls	6,024	UR	UR	UR
43	5/1/2005		Water System Upgrade	956	N/A	N/A	N/A
				963,266			31,152

	Date Acquired	Asset Number	Description	Amount \$	Service Life Years	Rate %	Expense \$
<u>Fixed Assets Per Application (Continued):</u>							
			<u>Land:</u>				
44	5/1/1996	126775	1.58 Acres	12,640	N/A	N/A	N/A
				12,640			
			<u>Buildings:</u>				
45	5/1/1996	126776	Water Treatment Building	110,000	6	16.67%	FD
				110,000			
			<u>Machinery & Equipment:</u>				
46	8/1/1996	127219	Wastewater Discharge Upgrade	3,000	9	11.11%	FD
47	8/1/1996	127220	Wastewater Discharge Upgrade	384	9	11.11%	FD
48	8/1/1996	127221	Wastewater Piping	1,121	9	11.11%	FD
49	11/1/1996	127690	Wastewater Piping	1,281	9	11.11%	FD
50	12/1/1996	127813	Equalization Lagoon Piping	281,438	9	11.11%	FD
51	12/1/1996	127814	Lagoon Piping Project	1,486	9	11.11%	FD
52	12/1/1996	127815	Equalization Lagoon Piping	41,113	9	11.11%	FD
53	1/1/1997	127966	Wastewater Piping	4,278	9	11.11%	FD
54	9/1/2001	137705	Engineering Labor	7,680	22	4.55%	349
55	11/1/2001	137846	Engineering for Sewer System	1,600	22	4.55%	73
56	12/1/2001	137906	Sanitary Sewer Line	23,436	22	4.55%	1,066
57	1/1/2002	137963	Sewer Design	4,774	22	4.55%	217
58	1/1/2002	137964	Divert Sanitary Sewer	38,471	15	6.67%	2,566
59	2/1/2002	138025	Sewer System Upgrade	2,400	22	4.55%	109
60	4/1/2002	138185	Sewer System Upgrade	174,592	22	4.55%	7,944
61	9/1/2002	138570	Sewer System Upgrade	1,835	22	4.55%	83
62	3/1/2003	139105	PH Control	15,300	9	11.11%	1,700
				604,189			14,107
<u>Additional Items Capitalized by ORS:</u>							
63	10/14/2008		Engineering Services - BP Barber	3,338	17	5.88%	196
64	12/3/2008		Leak Detection - American Leak				
			Detection	7,500	17	5.88%	441
65	1/3/2009		Engineering Services - BP Barber	23,551	17	5.88%	1,385
66	2/29/2008		Relocate water main & sewer main				
			for track relocation	104,612	27	3.70%	3,871
				139,001			5,893
Total Fixed Assets & Depreciation Expense				1,886,615			53,068
Less: Per Book Depreciation Expense							144,456
ORS's Proposed Depreciation Expense Adjustment							(91,388)

FD= Fully Depreciated

N/A= Not Applicable

UR=Unregulated Utility Activity

AUDIT EXHIBIT CAS-4

**Avondale Mills, Inc.
Docket No. 2008-460-WS
Computation of Income Taxes
For the Test Year Ended August 29, 2008**

Description	After Applicant's Proposed Increase Recalculated by ORS
Total Operating Revenues	\$ 723,826
Less: Operating Expenses	<u>594,033</u>
State Taxable Income	129,793
Less: State Income Taxes @ 5%	<u>6,490</u>
Federal Taxable Income	123,303
Federal Income Taxes:	
1st \$50,000 @ 15%	7,500
Next \$25,000 @ 25%	6,250
Next \$25,000 @ 34%	8,500
Remaining Balance @ 39%	<u>9,088</u>
Total Federal Income Taxes	31,338
Total State and Federal Income Taxes	37,828
Less: Income Taxes after ORS's Proposed Accounting and Pro forma Adjustments	<u>0</u>
ORS's Income Taxes (State and Federal) Adjustment	<u><u>\$ 37,828</u></u>